CHAPTER 5
FINANCIAL POSITION – RESULTS

5.1 CONSOLIDATED ACCOUNTS FOR FINANCIAL YEAR ENDING DECEMBER 31, 2000 AND 2001

BALANCE SHEET (Thousands of €)	December 31	
	2001	2000
	€	€
Assets		
Fixed assets		
Intangible assets	476	162
Tangible assets	36.047	858
	36.523	1.020
Current Assets		
Inventories	356	6
Trade accounts receivable	7.569	872
Other accounts receivable	11.948	674
Marketable securities	43.070	16
Cash …………	7.814	9.639
	70.757	11.207
Total Assets	107.280	12.227
Liabilities		
Shareholders'equity		
Common shares	2.691	2.048
Additionnal paid-in capital	93.674	11.014
Retained earnings and consolidated results	(2.953)	(2.714)
Accumulated translation adjustment	(383)	11
	93.029	10.359
Debts		
Loans and financial debt	213	213
Trade accounts payable and other payable	12.667	187
Other debts	1.371	1.468
	14.251	1.868
Total Liabilities	107.280	12.227

CONSOLIDATED STATEMENT OF OPERATIONS

(in thousands of €, except share data)	Year ending December 31, 2001	Year ending December 31, 2000
	€	€
Total revenue	9.834	3.057
Cost of revenue	(839)	(268)
Gross margin	8.995	2.789
Operating expenses : :		
Research and development	(5.576)	(2.761)
Sales and marketing	(3.994)	(2.592)
General and administrative	(2.424)	(924)
Total operating expenses	(11.994)	(6.277)
Income (loss) from operations	(2.999)	(3.488)
Interest expense	(39)	(9)
Interest income	2.441	363
Foreign exchange gain (loss)	384	501
Income (loss) before income taxes	(213)	(2.633)
Income tax (expense) credit	-	12
Net income (loss)	(213)	(2.621)
Basic net income (loss) per share	(0,01)	(0,07)
Number of shares used in computing basic net income (loss) per share	51.803.443	37.422.345
Diluted net income (loss) per share	(0,01)	(0,07)
Number of shares used in computing diluted net income (loss) per share	51.803.443	37.422.345

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(in thousands of €, except share and certificates of ownership data)

	Shares	Certificates of ownership		Share premium	Consolidated Reserves	Accumulated translation	Net shareholders' equity
	Number	Number	Amount				
			€	€	€	€	€
Balance January 1, 1998	-	-	-	-	-	-	-
Issuance of shares and certificates of ownership	23.077.600	4.256.000	763	1 097	67		1.927
Conversion of certificates of ownership into shares	2.396.800	(2.396.800)					-
Net Income					8		8
Foreign currency translation							-
Balance December 31, 1998	25.474.400	1.859.200	763	1 097	75	-	1.935
Issuance of shares	1.332.800		37		(33)		4
Net loss					(182)		(182)
Foreign currency translation						(11)	(11)
Balance December 31, 1999	26.807.200	1.859.200	800	1.097	(140)	(11)	1.746
Issuance of shares	12.292.000		1.248	9.917	47		11.212
Net loss					(2.621)		(2.621)
Foreign currency translation						22	22
Balance December 31, 2000	39.099.200	1.859.200	2.048	11. 014	(2.714)	11	10.359
Conversion of certificates of ownership into shares	1.859.200	(1.859.200)	-				
Issuance of shares	1.344.000		67		(63)		4
IPO on Le Nouveau Marché	11.511.111		576	82.660			83.236
Exercise of warrants					37		37
Net loss					(213)		(213)
Foreign currency translation						(394)	(394)
Balance December 31, 2001	53.813.511	-	2.691	93.674	(2.953)	(383)	93.029

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands of €)	Year ending December 31, 2001 €	2000 €
Cash flows from operating activities:		
Net income (loss))	(213)	(2 621)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	960	298
Increase (decrease) in cash from:		
Accounts receivable	(6 819)	(172)
Inventories	(351)	15
Other assets	(11 316)	(609)
Accounts payable	12 473	14
Accrued expenses and other current liabilities	(93)	1 182
Net cash flows from operating activities	(5 359)	(1 893)
Cash flows from investing activities:		
Purchases of property and equipment	(35 627)	(819)
Purchases of intangible assets	(731)	(282)
Net cash flows from investing activities	(36 358)	(1 101)
Cash flows from financing activities:		
Proceeds from loans	-	-
Cash proceeds from sale of ordinary shares	83 276	11 212
Net cash flows from financing activities	83 276	11 212
Effect of exchange rate changes on cash and cash equivalents	(330)	51
Net increase (decrease) in cash and cash equivalents	41 229	8 269
Cash and cash equivalents, beginning of period	9 655	1 386
Cash and cash equivalents, end of period	50 884	9 655

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1 Nature of business

MEMSCAP S.A. (the ‘‘Company’’) was incorporated as a *société anonyme*, or limited liability corporation under the laws of the Republic of France in November 1997.

MEMSCAP is a provider of innovative micro-electro-mechanical systems (MEMS)-based solutions. The MEMS, or micro-electro-mechanical systems, are microscopic systems that associate mechanical, optical, electromagnetic, thermic and fluidic elements to electronics on semi-conductor substrates. MEMSCAP solutions include hardware components, component designs (IP), and CAD design tools, manufacturing and related services.

The Company is focused on three major areas: wireless communications, optical communications, and MEMS computer-aided-design (CAD). At the beginning of 2001, MEMSCAP started the building of a manufacturing facility near Grenoble, addressing the production of RF and optic components. MEMSCAP’ current customers are based in France and in the United States and include primarily system original equipment manufacturers and semiconductor vendors. At December 31, 2001, the Company has 170 employees, 98 are based in Grenoble (France), 13 in Oakland (United States), 8 in Berlin (Germany), 39 in Cairo (Egypt), 11 in Helsinki (Finland) and 1 in Tokyo (Japan).

1.2 Principles of consolidation

The accompanying consolidated financial statements were prepared in accordance with accounting principles generally accepted in the France, as defined in the “Réglement CRC 99-02” on the consolidated accounts.
The preparation of the financial statements in conformity with generally accepted accounting principles necessarily requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.
The consolidated financial statements include the accounts of the Company and all its wholly owned (100%) subsidiaries. All are fully consolidated.

Entity	Inception	Country
MEMSCAP Inc.	February 1999	USA
MEMSCAP GmbH	December 1999	Gemany
MEMSCAP Ltd (*)	July 2000	Egypt
MEMSCAP Finland	September 2001	Finland
MEMSCAP Japan	December 2001	Japan

(*)The presence of MEMSCAP in Egypt, currently in legal restructuring, is composed on December 31, 2001 of both a reprentative office and a company, MEMSCAP Ltd. All the assets and liabilities of the representative office will be transfered to MEMSCAP Ltd during fiscal year 2002.

All intercompany accounts and transactions have been eliminated on consolidation.

The part of capital held by MEMSCAP in IROC S.A. Company, incepted during year 2000, has been reduced to 7,75% after an capital increase to which MEMSCAP did not subscribe.

1.3 Translation of foreign currencies

Translation of the financial statements of consolidated companies
Translation rules applicable to the financial statements of foreign subsidiaries are as follows: (1) asset and liability accounts at year-end exchange rates, (2) income statement accounts at weighted average exchange rates for the year, and (3) shareholders’ equity accounts at historical exchange rates. Gains or losses resulting from the above translation process are recorded in shareholders’ equity.

Transactions denominated in foreign currencies
Foreign currency transactions are translated using the historical rate. At year-end, outstanding receivables

and payables denominated in foreign currencies are translated at year-end exchange rates, with the resulting unrealized exchange gains and losses reflected in net income.
The Company has used no derivative financial instrument to cover its exchange risk.

1.4 Revenue recognition

The Company derives revenue from software licenses and related services, research and development services and sale of products.

Software licenses are sold mostly to end-user customers through direct sales channels. Software related services include contracts for software maintenance and technical support, consulting, training, and porting fees. In software arrangements that include rights to multiple software products and/or services, the Company allocates the total arrangement fee among each of the deliverables based on the relative fair value of each of the deliverables, determined based on vendor-specific objective evidence of fair value. The Company recognizes revenue from licensing of software products to an end-user upon delivery of the software product to the customer, unless the fee is not fixed or determinable, or collectibility is not considered probable. The Company considers all arrangements with payment terms extending beyond twelve months and other arrangements with payment terms longer than normal not to be fixed or determinable. If collectibility is not considered probable, revenue is recognized when the fee is collected.

Customer support revenue is recognized on a straight-line basis over the period that the support is provided. Other software service arrangements are evaluated to determine whether those services are essential to the functionality of the other elements of the arrangement. When software services are considered essential, revenue under the arrangement is recognized using contract accounting. When software services are not considered essential, the revenue allocable to the software services is recognized as the services are performed. The Company generally considers software services essential unless the software is paid for before the services commence and the services are limited to training or normal installation.

Revenue is recognized using contract accounting for arrangements involving customization or modification of the software or where software services are considered essential to the functionality of the software. Revenue from these software arrangements is recognized using the percentage-of-completion method with progress-to completion measured using labor cost inputs.

Revenue from research and development services is recognized under product development agreements as earned. Upfront payments, even non-refundable, are spread over the contract duration unless they are in exchange for products delivered or services performed that represent the culmination of a separate earnings process.

Revenue from sales of products is recognized upon shipment.

1.5 Research and development expenses

Research and development expenses are mainly composed of software development costs and costs incurred in connection with the development of optical and wireless equipment.

Certain software development costs incurred subsequent to the establishment of technological feasibility are capitalized, subject to net realizable value considerations, and amortized over the estimated lives of the related products. The establishment of technological feasibility and the ongoing assessment of the recoverability of these costs require management’s judgment with respect to certain external factors, including, but not limited to, anticipated future gross license revenues, estimated economic life and changes in software and hardware technology. Research and development costs prior to the establishment of technological feasibility are expensed as incurred. Technological feasibility is usually established upon completion of a working model, which is typically demonstrated by initial beta shipment. The period between the achievement of technological feasibility and the general release of the Company’s products has been of short duration. As of December 31, 2000 and 2001 such capitalizable software development costs were insignificant and all software development costs have been charged to research and development expense in the accompanying consolidated statements of operations.

Costs incurred in connection with the development of optical and wireless equipment are expensed as incurred, unless they are pursuant to customer contracts, in which case they are treated accordingly and expensed as project costs.

Research and development expenses form the basis for a tax credit in France, which is recorded as a current tax benefit in the period in which the qualifying expenses are incurred and the credit claimed. The credit is recoverable in cash, if not used to offset taxes payable, in the fourth year following its generation.

1.6 Credit risk and concentration of risks

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents and trade receivables.

The Company has cash investment policies that limit investments to short-term low risk instruments. The Company's cash is held principally in French francs and in U.S. dollars and concentrated primarily at high credit quality financial institutions.

Accounts receivable are derived from revenue earned from clients primarily located in France and in the United States. The Company performs ongoing credit evaluations of its customers and generally does not require collateral on accounts receivable. The Company maintains allowances for potential credit losses based upon factors such as the credit risk of customers, historical trends, and other information. To date, such losses have been within management's expectations. As of December 31, 2000, three clients represented approximately 11%, 16% and 17% of the Company's accounts receivable. As of December 31, 1999, two clients represented approximately 16% and 22% of the Company's accounts receivable. As of December 31, 2000, three clients represented approximately 11%, 16% and 17% of the Company's accounts receivable. As of December 31, 2000, one client represented 75 % of the Company's accounts receivable. Three clients accounted for 10%, 15% and 61% of total net revenues in 1998. Two clients accounted for 16% and 22% of total net revenues in 2000. Two clients accounted for 15% and 58% of total net revenues in 2001.

1.7 Net income (loss) per share

Basic earnings per share is based on the weighted average number of shares and certificates of ownership outstanding during each year. Diluted earnings per share is based on the weighted average number of shares and certificates of ownership outstanding during each year, adjusted for the effect of share equivalents arising from the assumed exercise of share options, warrants and other financial instruments potentially convertible into shares, if dilutive.
As net losses have been reported in 2000 and 2001, the dilutive effects of share options and warrants were excluded from the calculation of net loss per share as it would reduce net loss per share.

1.8 Cash and cash equivalent

The Company considers all highly liquid investments with insignificant interest rate risk and purchased with an original maturity of three months or less to be cash equivalents.

Cash equivalents include principally term deposits and money market funds. The fair value of cash equivalents approximates their carrying amount.

In 2000 and 2001, the Company booked gross realized gains on sales of marketable securities amounting to € 37,000 and € 2,366,000 respectively. Unrealized gains on marketable securities amounted to € 1,000 and € 221,000, respectively, as of December, 2000 and 2001.

1.9 Intangible assets

Intangible assets are mainly composed of software licences. Amortizations are calculated using the straight-line method over one or two year period.

1.10 Property and equipment

Property and equipment are recorded at cost. Depreciation and amortization are calculated using the straight line method over the estimated useful lives or, in the case of leasehold improvements, the term of the related lease, if shorter. The estimated useful lives of computer equipment, furniture and other equipment, and leasehold improvement is generally three to five years.

1.11 Long-lived assets

The Company assesses the recoverability of long-lived assets, whenever events or changes in facts and circumstances indicate that the carrying amount of an asset might not be recoverable. When such an event occurs, the Company estimates the future cash flows expected to result from the use of the asset and its eventual disposition. If the undiscounted expected future cash flows is less than the carrying amount of the asset, an impairment loss is recognized.

Management has performed a review of long-lived assets and has determined that no impairment of the respective carrying value has occurred as of December 31, 2000 and 2001, and has concluded that no loss of value existed on the amounts recorded in the balance sheet of each fiscal year for the concerned long-lived assets.

1.12 Inventories

Inventory is mostly composed of raw materials and finished goods, valued at the lower of cost or market. Appropriate consideration is given to deterioration, obsolescence and other factors in evaluating net realizable value.

1.13 Income taxes

Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates that will be in effect when the differences are expected to reverse. A valuation allowance is established if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized.

1.14 Segment and geographic information

The Company reports information about operating segments in annual financial statements on the basis that is used internally for evaluating segment performance and deciding how to allocate resources to segments. The Company also reports information about products and services, geographic areas and major customers.

Management evaluates its operations based on four business segments: wireless communications, optical communications and MEMS software design tools and foundery services. This last segment is related to the future beginning of operations of the manufacturing facility based in Bernin.

1.15 Post-employment benefits and employee termination

The Company contributes to pensions for personnel in France in accordance with local law, by contributing based on salaries to the relevant government agencies. There exists no actuarial liability in connection with these plans.

French law also requires payment of a lump sum retirement indemnity to all employees based upon years of service and compensation at retirement. Benefits do not vest prior to retirement. The Company's obligations amounted as of December 31, 2001, to € 17.000.

In November 2000, MEMSCAP Inc. adopted a retirement savings plan, qualified under Section 401(k) of the Internal Revenue Code, which is a pretax savings plan covering substantially all United States employees. Under the plan, employees may contribute up to 25% of their pre-tax salary, subject to certain limitations. Employees are eligible to participate beginning the first day of the month following their date of hire. The Company may, but is not required, to make a matching contribution to the plan on an employee's behalf. In 2000, it contributed approximately €11,000 and in 2001, € 20,000.

Others Company's subsidiaries currently have no pension plan.

2 . SIGNIFICANT INDUSTRIAL AGREEMENTS

On October 5, 2000, the Company entered into a joint development, license and production agreement with ADC Telecommunications Inc ("ADC") to collaborate in the manufacturing of some MEMS-based optical communications components as optical filters. MEMSCAP had to receive an aggregate compensation of $4.9 millions for the development over the duration of the joint development phase (33 months), including an initial payment of $1.2 million amount paid at the closing. The production phase was at the option of ADC. On fiscal year 2000, the Company has recognized as revenue $ 336,000 of the initial payment, the remaining $ 864,000 being spreaded on a straight-line basis during the period of the joint development phase. During the second half-year, the contract has been called into question and a termination agreement of the initial contract has been signed on October 30, 2001, according the terms of which ADC paid an amount of $ 504,000 (€ 559,000) in full settlement. The balance of the initial payment recorded as a prepaid income ($ 864,000 or € 879,000) has been wholly recognized as a revenue of the exercise.

On June 18, 2001, the Company entered into a strategic partnership with Walsin-Liwha Corporation ("Walsin"). According to the terms of this agreement, MEMSCAP grants Walsin a non exclusive and non transferable license for its RF-MEMS components, for a 10 year period, the manufacturing processes enabling the production of those components and the related software tools. This agreement has been concluded for a global amount of $ 5.0 millions (€ 5.7 millions), including $ 3.0 millions which, according to the terms of the contract, have been invoiced during the first half-year of 2001 and are related to the technology transfer and to the software tools licences. The balance has been invoiced during the second semester of 2001 and is related to the transfer of manufacturing processes.

3. INTANGIBLE ASSETS

The evolution of the intangible assets can be detailed as below:

	December, 31	
(In thousands of €)	**2001**	**2000**
Balance at beginning of period	299	18
Acquisitions	731	281
Disposal	-	-
Translation adjustment	12	-
Balance at end of period	1,042	299
Accumulated amortization	(566)	(137)
Net value of intangible assets	476	162

Amortization expenses recorded in the income statement were € 422,000 at December 31, 2001 and € 123,000 at December 31, 2000.

4. TANGIBLE ASSETS

The evolution of the tangible assets can be detailed as below:

	December,31	
(In thousands of €)	**2001**	**2000**
Computer equipment	1,140	606
Furniture and other equipment	588	313
Equipments and accomodations	478	209
In progress assets	34,507	-
Sub total	36,713	1,128
Less accumulated depreciation and amortization	(666)	(270)
Fixed assets, net	36,047	858

In progress assets are related to all the incurred expenditures at December 31, 2001 for the building of a fabrication facility for optical components. A significant part of such expenditures will be re-financed through leasing contracts during first semester of fiscal year 2002.

Amortization expenses recorded in the income statement were € 395,000 at December 31, 2001 and € 175,000 at December 31, 2000.

Changes in fixed assets for the periods presented were as follows:

(In thousands of €)	December, 31	
	2001	2000
	€	€
Balance at beginning of period	1 128	290
Acquisition	35,603	837
Disposal	-	-
Translation adjustment	(18)	1
Balance at end of period	36,713	1,128

5. ACCOUNTS RECEIVABLE

The Company's accounts receivable comprise the following:

(In thousands of €)	December, 31	
	2001	2000
Accounts receivable	7,702	734
Unbilled fees and services	-	138
Total	7,702	872
Allowance for doubtful accounts	(133)	-
Total , net of depreciation.	7,569	872

Accounts receivable include a € 5,721,000 amount to be received from Waslin-Liwha Corporation (cf. note 2). For administrative reasons linked to taxation at source (withholding tax), the payment of this account has been deferred on the second half-year period of FY 2002.

6. CASH AND CASH EQUIVALENT

Cash and cash equivalent include:

(In thousands of €)	December, 31	
	2001	2000
Cash	7,814	9,639
Cash equivalent	43,070	16
Total	50,884	9,655

Cash in bank, in US $, raised up to € 927,000 on December 31, 2001.

Cash equivalents include money market funds at December, 31 2001. At this date, there was no unrealized gain based on these money market funds.

According to the authorization given by General Meeting of January 29th 2001, the Company bought back during FY 2001, 313,767 of its own shares for a global amount of € 469,000 in order to regulate the Company stock price. Unrealized gain on these own shares rose up to € 221,000 on December 31, 2001.

OTHER TRADE RECEIVABLES AND RELATED ACCOUNTS

The other trade receivables can be analysed as set below:

(In thousands €)	December ,31	
	2001	2000
Tax debts	7,887	74
Deferred expenses	2,859	-

Prepaid expenses	527	288
Other trade receivables	675	312
Total of trade receivables	11,948	674

At December 31, 2001, tax debts mainly consist in a VAT credit for which a repayment request has been formulated for a global amount of € 4,912,000, out of which € 3,893,000 have been repaid in February 2001.

Deferred expenses are related to the launching expenses of the production plant for internal components. Those pre-operating and launching expenditures, directly chargeable to the future production of the Company will be posted as expenses at the beginning of the marketing stage of the related products.

7. DEBT

In June 1999, the Company received a conditional interest-free loan from ANVAR (*Agence Nationale de Valorisation de la Recherche)*, a French government agency that provides financing to French companies involved in research and development projects, for the development of a MEMS computer-aided-design software. Repayment of the loan is contingent upon the technical and commercial success of the research program to which it relates. Assuming the technical and commercial success of the research program, repayments for the next five years will be € 91,000 in March 2002, € 122,000 in March 2003.

8. OTHER LIABILITIES AND RELATED ACCOUNTS

Other debts include :

(In thousands €)	**December, 31** **2001**	**2000**
Tax and social security liabilities	1,138	411
Advances on orders in progress	-	133
Other liabilities	233	924
Total of other debts	1,371	1,468

9. SHAREHOLDER'S EQUITY

All numbers of shares and certificates of ownership, and per share and per certificate of ownership amounts, have been restated retroactively to reflect the 28-to-1 and 200-1 splits approved by the shareholders in June 2000 and January 2001, respectively. These restatements resulted in a corresponding reduction of the par value from € 280 to € 0,05.

9.1 GENERAL STATEMENTS

As of December 31, 2001, the share capital of the Company is composed of 53.813.511, each with a par value of € 0,05.

In November 1997 (the inception), 1.456.000 shares were issued at a price of € 0,0027 per share, generating net proceeds of € 42.000. In December 1997, 4.256.000 certificates of ownership were issued at a price of € 0,0027per certificate, generating net proceeds of €12,000. In September and October 1998, 2.396.800 certificates of ownership were converted into 2.396.800 common shares.

In February 1998, 688.800 shares were issued at a price of € 0,0664 per share, generating net proceeds of € 46.000. Also in February 1998, the shareholders authorized an increase in the par value from € 0,0027 to € 0,0045, through the transfer of € 33.000 from additional paid-in capital to share capital. In November 1998, 6.910.400 common shares were issued at a price of € 0,2641, generating net proceeds of € 1.825.000. In December 1998, 11.200 common shares with warrants attached were issued at a price € 0,2641, generating net proceeds of € 3.000. The warrants were subsequently cancelled in June 2000. Also in December 1998, the shareholders authorized an increase in the par value from € 0,0045 to € 0,0279, through the transfer of € 596.000 from additional paid-in capital to share capital.

In April 2000, 1.292.000 common shares were issued at a price of € 0,9121 per share, generating net proceeds of € 11.212.000. Also in April 2000, the shareholders authorized an increase in par value from € 0,0279 to µ€ 0,04845, through the transfer of € 804.000 from additional paid-in capital to share capital. In June 2000, the shareholders authorized an increase in the par value from € 0,04845 to € 0,05, through the transfer of € 60.000 from additional paid-in capital to share capital.

In January 2001, the remaining 1.859.200 certificates of ownership were converted into 1.859.200 common shares. In january 2001 too, 1.344.000 additional shares were issued at a price of € 0,0027 per share, generating a net proceeds of € 4.000, through warrants exercise.

In March 2001, for its listing on "Le Nouveau Marché" of the Paris Stock Exchange, the Company issued 11.511.111 new shares each with a par value of € 0,05. This issue included a M€ 91,5 additional paid-in capital. The global amount of the expenses related to this capital increase, posted on the share premium raised € 8,9 millions.

9.2 WARRANTS (BONS DE SOUSCRIPTION AUTONOMES D'ACTIONS OR ("BSA")

In December 1997, 480 warrants were issued at a price of € 0,15 to two individuals of the Company. Each warrant vests immediately and allows the holder to purchase 5.600 common shares of the Company at a price of € 0,0027, adjusted to the current par value at the date of exercise through a transfer from the dedicated restricted reserves. The warrants expire 5 years after the issuance date. In October 1998 and February 1999, respectively, 2 and 238 of these warrants were exercised into 11.200 and 1.332.800 shares. In January 2001, the 240 remaining warrants were exercised into 1.344.000 shares.

In October 2000, 840 warrants were issued at a price of € 0,15 to a director of the Company. Each warrant allows the holder to purchase 200 common shares of the Company at a price of € 0,91, adjusted to the current par value at the date of exercise through a transfer from the dedicated restricted reserves. The warrants expire 5 years after the issuance date. At December 31, 2001, none of these warrants were exercised.

In November 2000, 980 warrants were issued at a price of € 0,15 to members of the Technical Advisory Board of the Company. Each warrant allows the holder to purchase 200 shares of the Company at a price of € 0,91, adjusted to the current par value at the date of exercise through a transfer from restricted reserves. The warrants expire 5 years after the issuance date. At December 31, 2001, none of these warrants were exercised.

9.3 EMPLOYEE WARRANTS (BONS DE SOUSCRIPTION DE PARTS DE CREATEURS D'ENTREPRISE ("BSPCE")

In March 2000, the Company's shareholders issued 228 employee warrants to certain employees of the Company. The employee warrants vest 4 years after the date of entry of the employee in the Company, or immediately upon an initial public offering of the shares of the Company, and expire 5 years after the issuance date. Each employee warrant enables the holder to purchase 5.600 shares at a price of € 0,264. In 2000, 18 of these employee warrants have been cancelled following the resignation of certain employees. During 2001, 25 employee warrants have been exercised.

In October 2000, the Company's shareholders issued respectively 10.598 employee warrants to certain employees of the Company. The employee warrants vest 4 years after the date of entry of the employee in the Company, or immediately upon an initial public offering of the shares of the Company, and expire 5 years after issuance date. Each employee warrant enables the holder to purchase 200 shares at a price of € 0,912. As of December 31, 2000, none of these employee warrants were exercisable. During 2000 and 2001, 224 and 3.416 employee warrants have been respectively cancelled following the resignation of certain employees.

9.4 SHARE OPTIONS

In March 2000, the Company's shareholders authorized the implementation of the MEMSCAP Stock Option Plan Terms and conditions of each grant are to be determined by the Board of Directors.

In March 2000, the Board of Directors granted 412 share options to certain employees of the Company. The share options vest immediately upon an initial public offering of the shares of the Company and no later than

March 2008, and expire 8 years after their grant date. Each share option enables the holder to purchase 5.600 shares at a price of € 0,264. In 2000, 199 share options were cancelled following the resignation of certain employees. In 2001, 10 share options were cancelled following the resignation of certain employees.

In October and November 2000, the Board of Directors granted respectively 7.448 and 812 share options to certain employees of the Company. The share options vest one year after an initial public offering of the shares of the Company and no later than respectively October and November 2008, when they will expire. Each share option enables the holder to purchase 200 shares at a price of € 0,912. In 2001, 3.248 share options were cancelled following the resignation of certain employees

In January 2001, the Company's shareholders authorized the implementation of new Stock Option Plan or acquisition plan. Terms and conditions of each grant are to be determined by the Board of Directors.

In October 2001, the Board of Directors granted 910.000 share options to certain employees and directors of the Company. At the exercise date by their beneficiaries, such share options could lead to the delivery of acquired shares according terms of article L.225-210 of the Commerce Code instead of issued shares through the exercise of options. Each year, from the first birthday of the work contract of each beneficiary, 25% of the total of such options become exercisable and at last, on October 2009, when they will expire. Each share option enables the holder to purchase 1 share at a price of € 1,23. In 2001, 5.000 of these share options were cancelled following the resignation of certain employees. In 2001, 10 share options were cancelled following the resignation of an employee.

A summary of the share options activity is presented below:

(In number of shares)	**Warrants**	**BSPCE**	**Share Options**	**Total**
Balance as of December 31, 1999	-	-	-	-
Granted......................................	3 052 000	3 396 400	3 959 200	10 407 600
Exercised	(1 344 000)	-	-	(1 344 000)
Canceled	-	(145 600)	(1 114 400)	(1 260 000)
Balance as of December 31, 2000	1 708 000	3 250 800	2 844 800	7 803 600
granted.......................................	-	-	910 000	910 000
Exercised	(1 344 000)	(140 000)	-	(1 484 000)
Canceled	-	(683 200)	(710 600)	(1 393 800)
Balance as of December 31, 2001	364 000	2 427 600	3 044 200	5 835 800

The following summarizes information about the weighted average exercise prices per share for the warrants, founders' warrants and stock options :

	Total number of shares	**Weighted average exercise price per share (in €)**	**Price range in €**
Balance as of December 31, 1999	-	-	-
Granted......................................	10 407 600	0,45	0,0027-0,912
Exercised...................................	(1 344 000)	0,0027	0,0027
Canceled....................................	(1 260 000)	0,29	0,264-0,912
Balance as of December 31, 2000	7 803 600	0,56	0,0027-0,912
Granted......................................	910 000	1,23	0,264-1,23
Exercised...................................	(1 484 000)	0,03	0,0027-0,264
Canceled....................................	(1 393 800)	0,89	0,264-1,23
Balance as of December 31, 2001	5 835 800	0,72	0,264-1,23

10. INCOME TAX

Tax credit recorded in the year ended December 31, 2000 related essentially to training tax credit. There was no current tax expense or benefit for the Company's subsidiaries, due to the continuing losses of all companies in the consolidated group.

For financial reporting purposes, loss before income taxes includes the following :

(In thousands of €)	Year ending December 31 2001	2000
	€	€
France	1 946	(303)
Others	(2 159)	(2 330)
Total loss before income tax	(213)	(2 633)

A reconciliation of income tax computed at the French statutory rate (36.66% in 2000 and 35,33% in 2001) to the income tax benefit recognized is as follows:

(In thousands of €)	Year ending December 31 2001	2000
	€	€
Income (expense) tax computed at the French statutory rate	75	965
Loss carry forwards impact	(75)	(953)
Total income tax (expense) credit	-	12

Unrealized tax situation is mostly composed of net operating loss carry forwards. Due to its history of losses, the Company does not believe the recoverability of deferred tax assets generated from net operating loss carry forwards is more likely than not. Consequently, the Company has not recorded these deferred tax assets generated from net operating loss carry forwards.

At December 31, 2001, the Company has an amount of € 1.229.000 of loss carry forwards in France on which € 139.000 expire in 2005, € 597.000 expire in 2006 and the outstanding amount have no expiration date. The Company has also net operating loss carry forwards its American subsidiary for an amount of € 3.767.000, which will expire in 2014 (€ 180.000), in 2015 (€ 1.769.000) and in 2016 (€ 1.818.000). Through its German and Japanese subsidiaries, the Company holds loss carry forwards of respectively € 556.000 and € 49.000. In the future, the utilization of these carry forwards is limited to the future operations in tax jurisdictions in which such carry forwards arose.

11. COMMITMENTS

The Company leases certain office facilities under operating leases which expire through 2005. These three year leases are renewable for two three year periods. Future minimum lease payments related to these leases, and at December 31 of each year, over the next, consist of the following:

	(In thousands of €)
	€
2002	493
2003	294
2004	236

2005 236

Total rental expense for the years ended December 31, 2000 and 2001, was approximately € 109.000 and € 698.410.

The leasing commitments are not relevant.

PRIVITIES OF CONTRACTS	TOTAL	DUE	PAYMENTS	BY PÉRIOD
		LESS THAN1 YEAR	FROM 1 TO 5 YEARS	MORE THAN 5 YEARS
Long term debt (note 7)	€ 213 000	€ 91 000	€ 122 000	-
Leasing obligations	-	-	-	-
Lease contracts (note 11)	€ 1 259 000	€ 493 000	€ 766 000	-
Binding obligations to buy	-	-	-	-
Other long-term obligations	-	-	-	--
Total	**€ 1 472 000**	**€ 584 000**	**€ 888 000**	**-**

OTHERS COMMERCIAL COMMITMENTS	TOTAL
Credit lines	-
Credit letters	-
Guarantees	-
Obligations to repurchase	-
Others	-
TOTAL	-

12. CONTINGENCIES

From time to time, the Company may have certain contingent liabilities that arise in the ordinary course of its business activities. The Company accrues contingent liabilities when it is probable that future expenditures will be made and such expenditures can be reasonably estimated. In the opinion of management, there are no pending claims of which the outcome is expected to result in a material adverse effect in the financial position or results of operations of the Company.

13. INFORMATION BY SEGMENT AND GEOGRAPHIC ZONE

Segment: The Company identifies its operating segments based on how management internally evaluates separate financial information, business activities and management responsibility. The Company is a provider of components and related design technologies for telecommunication equipment integrating Micro-Electronico-Mechanical Systems (MEMS).

Until December 31, 2000, the Company had three operating areas: wireless application, optical application, and MEMS software design tools. The future mise en service de l'usine de fabrication de Bernin has introduced a fourth operating area related to les Services de Fonderie MEMS qui seront réalisées. Key decisions and performance assessment are based on these four operating segments.

Wireless application: this segment is based on the design, development and sale of solutions that enhance integration for wireless systems.

Optical application: this segment provides for the development and sales of scalable and flexible full photonic switching capabilities and other high added-value components for optical networks.

MEMS Computer-aided-design: this segment includes MEMS software design tools which provide a comprehensive infrastructure for deployment of MEMS-based technologies.

Fabrication: This segment includes the MEMS foundery services realized by the Bernin production facility for external clients.

Segment information is as follows:

(In thousands of €)	Wireless	Optical	MEMS Tools	Fab.	Elimina-tions	Consolidated
	€	€	€	€	€	€
Year ended December 31, 2000						
Revenue...	183	464	2 410	-	-	3 057
Segment operating income (loss)......	(1 136)	(406)	(1 946)	-	-	(3 488)
Identifiable assets	837	299	1 436	-	-	2 572
Capital expenditures for segment assets	364	130	624	-	-	1 118
Depreciation and amortization	97	35	166	-	-	298
Year ended December 31, 2001						
Revenue...	5 125	1 391	3 318	-	-	9 834
Segment operating income (loss)	(317)	(1 422)	(228)	(1 032)	-	(2 999)
Identifiable assets	7 254	1969	4 696	42 476	-	56 396
Capital expenditures for segment assets	591	425	811	34 507-	-	36 334
Depreciation and amortization	266	190	361	-	-	817

Revenue and total assets by geographic area are as follows:

(In thousands of €)	France	USA	Asia	Others	Élimin.	Consolidated
	€			€	€	€
Revenue :						
2000	627	2 359	-	71	-	3 057
2001	1 965	2 073	5 414	382	-	9 834
Total assets :						
2000	14 712	850	-	497	(3 832)	12 227
2001	112 887	1 354	152	1 393	(8 506)	107 280

14. INFORMATION ON EMPLOYEES AND DIRECTORS

The Company’s full time equivalent employees are as follows:

	Year ending December 31	
	2001	**2000**
Research and Development	97	43
Sales and marketing	18	17
General and administrative	20	11
Total full time equivalent employees..	135	71

Aggregated compensation expenses (including payroll taxes) in the years ended December 31, 2000 and 2001, were € 8.79.672 and € 3.999.000 respectively.

The aggregate amount of compensation paid by the Company to all of its executive officers and senior management as a group (14 persons in 2001and 7 persons in 2000) for their services in the years ended Decemb er 31, 2001 and 2000 were € 1.560.000 and € 513.000 respectively.

15. SUBSEQUENT EVENTS

On December 21, 2001, the Company has signed an agreement with the Norwegian Group SensoNor ASA in order to acquire 100% of the shares of Capto AS. This acquisition was finalized during February 2002 for a global amount of € 9,36 millions.

Capto AS is a specialist in MEMS based products for medical and aerospace industries. For year ended December 31, 2001, its revenue was € 8 millions and its income before tax was € 1,7 millions.

This subsidiary will be fully consolidated in 2002 in the MEMSCAP Group financial statements.

5.2 Proforma consolidated balance sheet and income statement including CAPTO

Both unaudited proforma consolidated balance sheet and income statement of MEMSCAP Group for year ended December 31, 2001 (therefore «proforma consolidated statements ») here below have been prepared as if MEMSCAP had acquired CAPTO on January 1, 2001 for the needs of the income statement, and on December 31, 2001 for the needs of the balance sheet.

Proforma consolidated statements do not pretend to reflect the consolidated financial position or results of the MEMSCAP Group as if the above-mentioned deal occurred at the retained date for the drawing up of the proforma data and they don't necessarily give an indication about the financial position and futur results of the Group. The proforma financial statements must be read jointly with both audited financial statements of MEMSCAP, S.A. and Capto AS for fiscal year ended December 31, 2001. To establish those proforma financial statements, the financial statements of both MEMSCAP, S.A. and Capto AS have been reprocessed and some proforma adjustments have been recorded. These adjustments are detailed in the following notes:

Proforma financial statements have been established in accordance with accounting standards generally accepted in France.

A- Proforma consolidated balance sheet

	MEMSCAP **(1)**	Capto Reprocessed data **(2)**	Goodwill recording **(3)**	Goodwill amortization **(4)**	Financial revenues reprocessing **(5)**	Pro forma consolidated data **(6)**
Assets						
Fixed assets	36 523	1 912	6 600	(660)		44 375
Current assets	70 757	5 667	(9 860)		(328)	66 236
Total assets	**107 280**	**7 579**	**(3 260)**	**(660)**	**(328)**	**110 611**
Liabilities						
Shareholders' equity	93 029	3 260	(3 260)	(660)	(328)	92 091
Debt	14 251	4 319				18 570
Total liabilities	**107 280**	**7 579**	**(3 260)**	**(660)**	**(328)**	**110 611**

B- Pro forma consolidated income statement

Revenue	9 834	8 030				17 864
Operating expenses	(12 833)	(6 290)				(19 123)
Operating result	**(2 999)**	**1 740**	**-**	**-**	**-**	**(1 259)**
Financial result	2 786	(58)			(328)	2 400
Before tax result	**(213)**	**1 682**	**-**	**-**	**(328)**	**1 141**
Income Tax	-	(517)				(517)
Net income (loss)	**(213)**	**1 165**	**-**	**-**	**(328)**	**624**
Goodwill amortization				(660)		(660)
Net income (loss) of the Group	**(213)**	**1 165**	**-**	**(660)**	**(328)**	**(36)**

C- Notes related to unaudited proforma consolidated financial statements

(1) MEMSCAP

This is a simplified presentation of MEMSCAP consolidated financial statements for the fiscal year ended December 31, 2001 as approved by the board of directors held on March 12, 2002.

(2) Capto reprocessed data

Capto financial statements for fiscal year ended December 31, 2001 have been translated in euros according to the following terms: Assets and other liabilities at the closing rate, income statement data at the fiscal year average rate. The change profit resulting from this translation process has been recorded directly in the shareholders' equity. The balance sheet has been reprocessed in order to record the NOK. 6.275.000 (€ 789.000) increase of capital, entirely subscribed by the seller at the beginning of February, 2002. This increase of capital has been done to build up the cash position in accordance with the acquisition agreement.

(3) Goodwill recording

A first consolidation adjustment of € 6.100.000 has been recorded on the basis of an acquisition price of € 9.360.000 to which acquisition fees have been added for an estimated amount of € 500.000. This first consolidation adjustment has been totally recorded as goodwill.

(4) Goodwill amortization

A goodwill amortization has been recorded based on a 10 year straight line amortization period.

(5) Financial revenue reprocessing

Financial revenue related to the investment during fiscal year 2001 of the amount spent for the acquisition of the shares of Capto has been cancelled as if the acquisition had occurred on January 1, 2001.

5.3 Consolidated financial statements for year ending December 31, 2001 – independent auditors's report

In fulfilment of the task entrusted to us by your General Meeting, we have audited the consolidated financial statements of MEMSCAP for the fiscal year ended December 31, 2001, as attached to this report.

These financial statements were approved by the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

We hereby certify that the consolidated financial statements, drawn up according to the accounting principles and regulations applied in France, give a true and fair view of the financial position, assets, liabilities and results of the group of companies included in the consolidation.

We have also verified, in accordance with auditing standards generally accepted in France, the information concerning the Group given in the management report.
We have no comments to make concerning the fairness of the information ans its consistency with the consolidated financial statements.

April, 19th 2002

The statutory auditors

Jean-Marie BOURGEOIS

ERNST & YOUNG Audit
Jean-Christophe DEVELAY

5.4 Summarized MEMSCAP S.A. financial statements for year ended December 31, 2001

BALANCE SHEET

(In thousands of €)	Year ending December 31 2001 €	2000 €	1999 €
Assets			
Fixed assets			
Intangible assets	474	53	4
Tangible assets	35.451	252	184
Financial assets	464	76	11
	36.389	**381**	**199**
Current assets			
Inventories	356	5	21
Advances and paid deposit on orders	-	19	-
Trade accounts receivable	7.334	713	616
Other accounts receivable	14.174	4.025	355
Cash equivalent	43 032	16	585
Cash	6 999	9.437	991
	71.895	**14.215**	**2.568**
Other current assets	3.385	122	38
Conversion adjustment	51	78	2
Total assets	**111.720**	**14.796**	**2.807**
Liabilities			
Shareholders' equity			
Capital	2.691	2.048	800
Share Premium	93.674	11.014	1.097
Reserves	54	81	34
Carried forward	(475)	(6)	7
Result of the period	1.578	(279)	(13)
	97.522	**12.858**	**1.925**
Provisions for risks	51	78	-
Debts			
Financial debt	214	214	460
Advances and received deposits on orders in progress	-	133	59
Trade accounts payable	13.619	549	322
Other accounts payable	94	83	3
	13.978	**1.057**	**844**
Prepaid income	76	879	-
Conversion adjustment	144	2	38
Total Liabilities	**111.720**	**14.796**	**2.807**

INCOME STATEMENT

(In thousands of €)	Year ending December 31 2001	2000	1999
	€	€	€
Net revenue	9.472	2.663	1.676
OTher operating incomes	339	204	106
Operating expenses	(10.153)	(4.013)	(1.863)
Operating result	**(1.019)**	**(1.146)**	**(81)**
Financial revenue	3.014	1.151	68
Financial expenses	(127)	(292)	(2)
Financial result	**2.887**	**859**	**66**
Extraordinary revenue	16	4	3
Extraordinary expenses	(306)	-	-
Extraordinary result	**(290)**	**4**	**3**
Income tax	-	4	(1)
Net income (loss)	**1.578**	**(279)**	**(13)**

EXTRACTS OF NOTES

ACCOUNTING METHODS AND PRINCIPLES

1. Main principles

The accounting general standards have been applied in the respect of the conservatism principle, in accordance with the basic assumptions:

- Going-concern status
- Permanency of the accounting principles from one exercise to the following one,
- Independance of the exercises

and in accordance with the principles of drawing up and presentation of the individual financial statements.
The basic method applied for the evaluation of items recorded in account books is the historic cost method.

2. Investments

The equity interests, as well as the other fixed shares, have been estimated at their purchase price, without taking into account any incurred fees for their acquisition.
In case of transfer concerning a whole of shares of same class and giving the same rights, the original value of the sold securities is estimated on the weighted average purchase price.
If the case arises, the equity interests have been depreciated through allowances in order to take their current value at the date of the closing of the fiscal year into account. This current value is especially based on both the quotity of shareholders'equity and the result prospects.

3. Integration of the financial statements of the Egyptian representative office

The financial statements related to the Egyptian representative office have been factored into the financial statements of the Company, in implementation of the principle according to which a sole legal entity exists.
Those financial statements expressed in local currency (Egyptian pound) and composed of both balance sheet and income statement have been translated in euros according to the following terms:

- Accounts of the balance sheet (except the link account –account between the parent company and its representative office) : closing rate,
- Accounts of the income statements : average rate during FY,
- Link account : historic rate.

The conversion differential resulting from this conversion process has been posted to a carried forward account.

4. Investments table

(In thousands of euros)

	Share capital (in local currency)	Shareholders' equity (except share capital)	% of ownership interest	Net boook value of the shares held	Loans and advances, granted by theCompany, and not yet paid back	Guarantees given by the company	Revenues of the last fiscal year	Net result of the last fiscal year	Received dividends by the Company during the fiscal year	Notes
A. Over 50% owned subsidiaires										
MEMSCAP GmbH Technology and Innovation Park Berlin Volstrasse D-13335 Berlin, Germany	25 000	(259)	100%	25	717	-	72	(300)	-	
MEMSCAP Inc 180 Grand Avenue CA - 94612 Oakland 4700 Falls of the Neuse Road Suite 395 NC - 27609 Raleigh, USA	10	(1 569)	100%	N/A	5 184	-	246	(1 818)	-	
MEMSCAP Ltd (Egypte) 9 Batlanta street Off El - Oranba road Cairo, Egypt	425 500	-	100%	25	0	-	0	N/A	-	Company incepted on Jan 1, 2002 instead of the representative office
MEMSCAP OY (Finland) Hermiankatu 8 B 43 33720 TAMPERE - Finland	8 000	-	100%	1	57	-	45	(1)	-	First fiscal year
MEMSCAP KK (Japan) MS building 6 F, 4-2, Mita 3-chome, Minato-ku Tokyo - Japan	10 000 000		100%	430	109	-	-	-	-	First fiscal year

NB : The two first columns are expressed in local currencies (respectively Euro for MEMSCAP Gmbh and USD for MEMSCAP Inc, EGP for MEMSCAP Ltd, Euro for MEMSCAP OY, and Yen for MEMSCAP KK).

5. Commitments

PRIVITIES OF CONTRACTS (IN €)	TOTAL	DUE PAYMENTS BY PERIOD		
		LESS THAN 1 YEAR	FROM 1 TO 5 YEARS	MORE THAN 5 YEARS
Long term debt	213.000	91.000	122.000	-
Leasing obligations (*)	198.411	80.430	117.981	-
Lease contract				-
Binding obligations to buy	-	-	-	-
Other long-term obligations	-	-	-	--
Total	**411.411**	**171.430**	**239.981**	**-**

(*) These commitments are considered as not relevant regarding the consolidated statements.

OTHERS COMMERCIAL COMMITMENTS	TOTAL
Credit lines	-
Credit letters	-
Guarantees	-
Obligations of repurchase	-
Others	-
TOTAL	-

5.5 Independant auditors' report For year ended december 31, 2001 financial statements

In fulfilment of the task entrusted to us by your General Meeting, we present you our report relating to the year ended December, 31 2001 concerning:

-the auditing of the annual financial statements of MEMSCAP as attached to this report:
-the legally required information and specific verifications.
The annual were approved by the Board of Directors. It is our task to express an opinion on these accounts, based on our audit.

Opinion on the annual financial statements
We have performed our audit according to the professional standards applied in France, these standards require that we plan and perform our audit to obtain reasonable assurance that the company's financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

We hereby certify that the annual accounts, drawn up according to the accounting principles and regulations applied in France, give a true and fair view of the results of operations for the year just ended as well as of the financial position and assets of the company at the year end.

Specific information and verifications
We have also verified the specific information required by law, in accordance with the generally accepted accounting standards applied in France.

We have no comment to make concerning the fairness of the information given in the management's report and in the documents sent to the shareholders on the company's financial situation and annual accounts and the consistency of this information with the annual financial statements.

In compliance with the law, we have verified that the various items of information concerning the acquisition of interests and control and the identity of major shareholders have been communicated to you in the management's report.

April 19, 2002 Statutory Auditors

Jean-Marie BOURGEOIS

Ernst & Young Audit
Jean-Christophe DEVELAY

5.6 Independent auditors' special report on regulated agreements for year ending december 31, 2001

In our statutory auditors' quality, we present you our report relating to the regulated agreements. It is not our task to ascertain the existence of such agreements.

1. We inform you that we have been advised of no agreement referred-to in article L. 225-38 of the Commerce Code.

2. We also present you our report on agreements referred-to in article L. 225-42 of the Commerce Code.

In compliance with article L. 225-240 of this Code, we inform you that such agreement have not been subject to a prior authorization by your Board of Directors.

On the basis of the information we received, it is our task to inform you of the characteristics and main terms of such agreements as well as of the reasons for which the authorization procedure has not been applied, without having to express an opinion on the usefulness and the opportunity of concluding such conventions. It is your task, according to terms of article 92 of the decree of March 23, 1967, to appreciate the opportunity of concluding such agreements for their approval.

We have performed our mission according to the professional standards applied in France; these standards require that we act with due diligences in order to check the conformity of the information we received with the documents from which they have been extracted.

1. With MEMSCAP Inc., MEMSCAP GmbH and MEMSCAP Oy companies

Concerned person
Mr Jean-Michel Karam

a. Nature, subject and terms

MEMSCAP S.A. outsources to its subsidiaries MEMSCAP Inc., MEMSCAP GmbH and MEMSCAP Oy some R&D projects relating to the MEMS technology. All these developments and intellectual property rights relating to these projects are the exclusive property of MEMSCAP S.A.

In compensation of these research and development services, the companies MEMSCAP Inc., MEMSCAP GmbH and MEMSCAP Oy re-invoice to their parent-company, MEMSCAP S.A., the global amount of direct and indirect expenditures relating to those projects.
These transactions are subject to contracts of re-invoicing between MEMSCAP S.A. and its concerned subsidiaries.

The respective amounts of such re-invoicings for fiscal year 2001 are the following ones:
MEMSCAP Inc. : € 2.432.111
MEMSCAP GmbH : € 227.014
MEMSCAP Oy : € 119.776
Total amount of such research and development re-invoicings € 2.778.901

b. Nature, subject and terms
MEMSCAP S.A. brings to its subsidiaries MEMSCAP Inc., MEMSCAP GmbH and MEMSCAP Oy, a strategic, commercial and administrative assistance.
Terms of such assistance as well as the invoicing drawn up by MEMSCAP S.A. for its concerned subsidiaries are subject to services contracts.

The respective invoiced amounts for such assistance for fiscal year 2001 are the following ones:
MEMSCAP Inc. : € 46.250
MEMSCAP GmbH : € 15.417
MEMSCAP Oy :1 € 30.833
Global amount(without tax) of the invoicing of services : € 92.500

c. Nature,subject and terms
MEMSCAP S.A. grants to its subsidiaries MEMSCAP Inc., MEMSCAP GmbH and MEMSCAP Oy, cash advances.
The terms of payment of such advances are subject to loan contracts between MEMSCAP S.A and its concerned subsidiaries.
The respective amounts of financial interests billed by MEMSCAP S.A. for fiscal year 2001 are the following ones:

MEMSCAP Inc : € 160.060
MEMSCAP GmbH : € 19.038
MEMSCAP Oy : € 1.028
Global amount of the billed financial interests : € 180.126

2. With MEMSCAP Inc.

Concerned person
Mr Jean-Michel Karam

Nature,subject and terms
The MEMSCAP Inc. company brings its parent company, MEMSCAP S.A. provisions of technological and strategic assistance. This assistance is related to the position of Mrs Mary-Ann Maher, employee of MEMSCAP Inc., who serves as “Software Design Tools” business unit Manager for MEMSCAP group.

In accordance with the contract of services dated on January 1, 2001, MEMSCAP Inc. re-invoices its parent-company,the whole amount of salary, social and tax expenditures as well as the travel expenditures relating to Mrs Mary-Ann Maher.

The amount of such re invoicing for fiscal year ended December 31, 2001 is € 262.962.

We inform you that a Board of Directors held on March 12, 2002, decided to authorize a posteriori these agreements.

April 19, 2002

The statutory auditors

Jean-Marie BOURGEOIS

ERNST & YOUNG Audit
Jean-Christophe DEVELAY

Since closing of year ended December 31, 2001, no other regulated agreement has been concluded.

CHAPTER 6
MANAGING BODIES

6.1 COMPOSITION OF THE MANAGING BODIES

6.1.1 Board of Directors

6.1.1.1 Composition of the Board of Directors

MEMSCAP board of directors currently has 5 members. Board members are elected by the shareholders at an ordinary shareholders' meeting for a six year period.

INNOVACOM 3, represented by Mr François SCOLAN, resigned from his director position stating October 15, 2001.

The following table sets forth the name, th age of each of the five directors, and if the case arises, the name of their permanent representative for corporations acting as members of the board of directors, and finally, the dates of their mandate.

Name	Age	Date of election	Current term of office (OGM held to approve the accounts for the year ending)
Jean-Michel KARAM – Chairman	32	June 4, 1998	Dec 31, 2003
Joseph BOREL	64	Oct 2, 2000	Dec 31, 2005
James SPOTO...	51	Jan 29, 2001	Dec 31, 2006
SPEF VENTURE (formerly named SOPAGEST represented by Valérie GOMBART.............	N/A	Oct 2, 2000	Dec 31, 2005
ETF Investments N.V. represented by Chris PELLY	N/A	Oct 2, 2000	Dec 31, 2005

Other mandates held by members of the board of directors
Jean-Michel KARAM was member of the Supervisory Board, executive board of IRoC Technologies, limited and simplified company incorporated in January 2000 in which MEMSCAP holds 7,75 % of the share capital at December 31, 2001. He resigned from all these functions in January 2002 and holds no other mandate in any other company.

Valérie GOMBART is permanent representative of SPEF VENTURE at the Board of Directors of MAXIMILES, VISTAPRINT (incorporated in Delaware, USA) and of OPTOGONE EUREKA SOFT.

Chris PELLY is director of ETF Group SA (Switzerland), and permanent representative of ETF at the Board of Directors of Itim Group plc (Royaume-Uni) and at the Supervisory Board of Vermeer Equity Partners B.V., (Netherlands).

Joseph BOREL is member of the board of directors of French company IROC.

James SPOTO is also Chairman, CEO and director of the « Applied Wave Research » company as well as member of the technical advisory Board of AXYS design.

Other functions held by the permanent representatives in the company they represent

Valérie GOMBART is an employee of SPEF VENTURE where she acts as Investments Director.
Chris PELLY is an employee of ETF Investments N.V. acting as Financial Chief Officer.

6.1.1.2 Functionning of the Board of Directors

The board of directors met eight times during the fiscal year 2001, at the following dates : Jan 8, 2001; Jan 11, 2001; Feb 1, 2001; Mar 1, 2001; Apr 4, 2001; July 9, 2001 ; Oct 15, 2001; Dec 17, 2001.

The board of directors held on July 9, 2001 adopted the principle of a Director Charter of Good Conduct. The board of directors held on October 15, 2001 approved the charter. It rises as follows:

"After having recalled that the directors, as well as any person called to attend the meetings of the Board of Directors or specialist committees which the Board may decide to create, are bound to discretion with regard to information which is confidential in nature and presented as such by the Chairman of the Board of Directors.

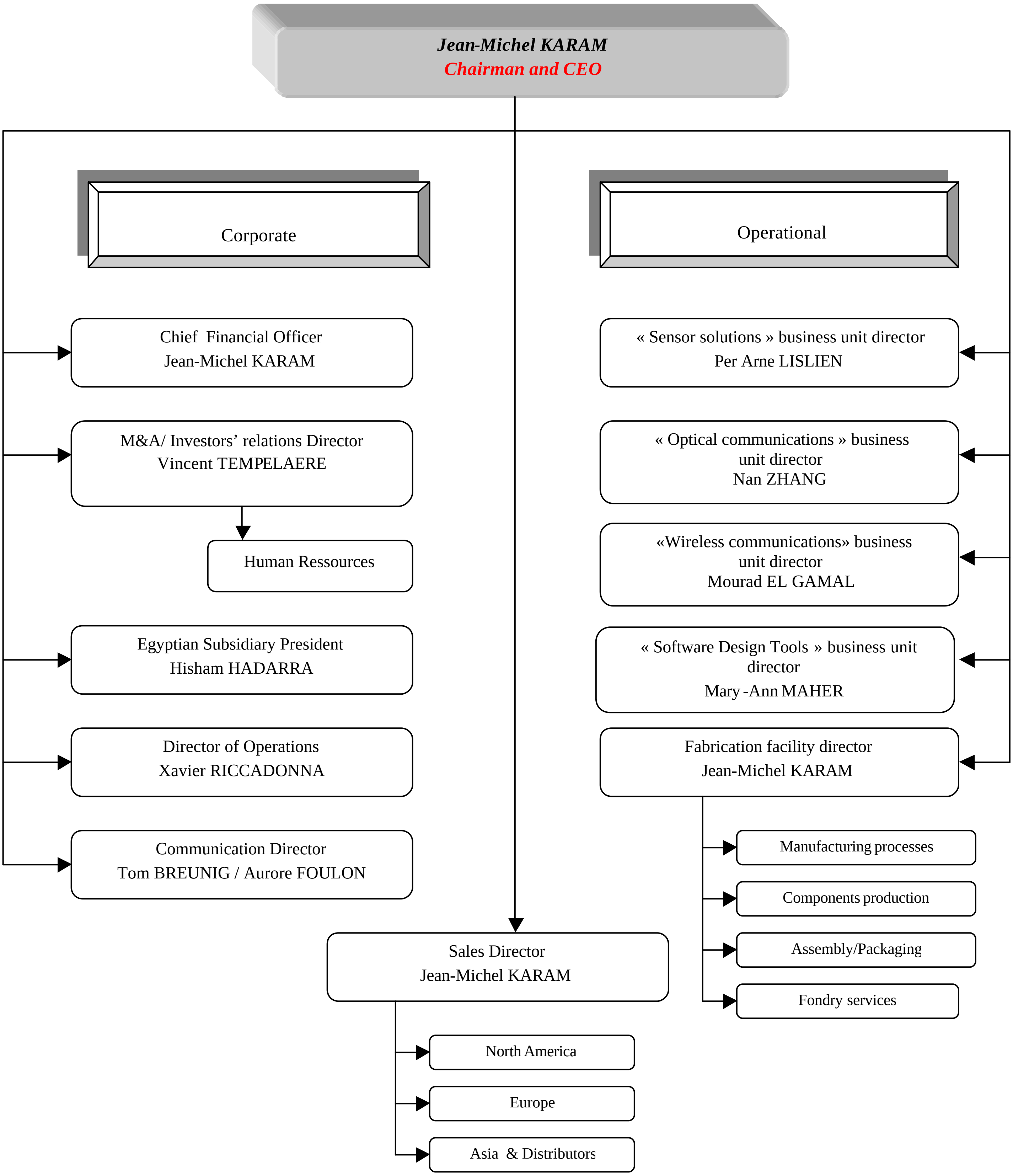
After having recalled that companies whose shares are negotiated on a regulated market are bound to a number of obligations with regard to the public relating to permanent and periodical financial information relating to financial transactions, that while each of the directors must assume personal liability with regard to such obligations, the proper functioning of corporate bodies leads to the Chairman of the Board of Directors alone or the individuals appointed by it having to speak in the name of the company to satisfy the aforementioned obligations.

After having recalled the main obligations for directors and managers of companies whose shares are listed on regulated markets, in particular:

Articles L.225-109 and L.247-4 of the French Commercial Code on the mandatory putting of the shares in the company held by the directors in registered form;
Article L.465-1 paragraphs 1 and 2 of the French Financial and Monetary Code on insider dealing and the fact that the managers referred to in Article L.225-109 of the French Commercial Code are qualified as "primary" insiders liable to possess privileged information on the outlook and position of MEMSCAP and hence may therefore not on the one hand perform or consciously enable to be performed, either directly or indirectly, or through an intermediary, a transaction (purchase or sale of shares) before this information has become public knowledge, nor on the other hand communicate privileged information to third parties outside of the normal context of his or her profession or duties;
COB[4] Regulation n°90-08 relating to the use of privileged information;
Article L.465-1 paragraph 3 of the French Monetary and Financial Code which punishes circulation to the public of inaccurate or misleading information on the outlook or position of an issuer or on the development outlook of a financial instrument listed on a regulated market, of a nature to influence its price;
Regulation n°98-07 relating to public information;
Article L.465-2 of the French Monetary and Financial Code which makes performing or attempting to perform a manoeuvre the aim of which is to hinder the normal functioning of a financial instrument's market by misleading others an offence.
The Board of Directors undertakes and each of the directors individually undertake to in all circumstances act in compliance with these rules in order to foster the integrity of the market for MEMSCAP shares.
In addition, the directors undertake to act with loyalty and care in their duties by basing their actions on the company's interest and the joint interest of the shareholders in all cases.
In particular, each of the directors undertakes to reveal the existence of any conflict of interest with the company and undertakes to abstain from voting or even participating in the Board of Directors decision-making process in the event in which such a conflict arises.
Lastly, each of the directors undertakes to perform his or her terms of reference with care by performing, in particular, his or her supervisory and informative duties by basing their actions on the defence of MEMSCAP interests.

6.1.2 Executive officers

Under the Chairman's responsability acting also as Sales Director, Chief Financial officer and Fabrication Director, the management of the Company is structured in two poles as shown below:


Jean-Michel KARAM
Chairman and CEO
Corporate
Operational
Chief Financial Officer
Jean-Michel KARAM
M&A/ Investors' relations Director
Vincent TEMPELAERE
Human Ressources
Egyptian Subsidiary President
Hisham HADARRA
Director of Operations
Xavier RICCADONNA
Communication Director
Tom BREUNIG / Aurore FOULON
« Sensor solutions » business unit director
Per Arne LISLIEN
« Optical communications » business unit director
Nan ZHANG
«Wireless communications» business unit director
Mourad EL GAMAL
« Software Design Tools » business unit director
Mary -Ann MAHER
Fabrication facility director
Jean-Michel KARAM
Manufacturing processes
Components production
Assembly/Packaging
Fondry services
Sales Director
Jean-Michel KARAM
North America
Europe
Asia & Distributors

Jean-Michel KARAM, ***32 years old, Chaiman of the Board..*** Holds of a *Ph. D. in Microelectronics from the* Institut National Polytechnique of Grenoble, 1996 and additionnal EE degree from the Ecole Supérieure d'Ingénieurs en Electrotechnique et Electronique, 1993. Jean-Michel KARAM joined the French research institute TIMA Laboratories based in Grenoble in 1994. In 1995, he built the Microsystems Group up to 35 highly-skilled engineers in the MEMS development. He founded MEMSCAP in 1997 and became President and Chief Executive Officer in 1998. Dr. Karam chairs and serves on various program committees of international conferences and on many editorial
Boards of scientific reviews.

Vincent TEMPELAERE, ***37 years old, M& A and Investors' Relations Director***. Holds of a Master Degree in economics and a DESS post-graduate degree in finance from Dauphine University, Vincent Tempelaere began his career at the Société Générale in 1989. For seven years, he managed the Institutional investors' relations for Continental Europe (France, Switzerland, Italy, Spain, Belgium and Finland). In 1997, he served as vice-president in the Equity Department.where he oversaw activity in French issues, including Initial Public Offering and follow-on operations such as capital increse and secondary offerings. By the end of 2000, he joined the "Technology Equity Corporate Finance" SG Cowen Department where he led in February 2001 the MEMSCAP IPO. He joined MEMSCAP in May 2001.

Hisham HADDARA, ***44 years old, President of the Egyptian subsidiary,*** has served as our Egypt Competence Design Center Director since June 2000. From September 1998 until May 2000, he served as our Chief Scientist in the Analog and Mixed Signal Division where he led the foundry support program for analog simulation and participated in formulating a strategy for mixed signal design re-use. In November 1994, he founded and became the first general manager of Mentor Graphics, Egypt. From 1988 until 1994, he served as an assistant and associate professor at the electronics engineering department at Ain Shams University, Cairo, Egypt. Dr. Haddara has a B.Sc. with honours and a M.Sc. with honours in electrical engineering from Ain Shams University, Cairo, Egypt, and a Ph.D. in the physics of semiconductor devices from the *Institut National Polytechnique de Grenoble*, France.

Xavier RICCADONNA, ***36 years old, Ph.D***, has served as our Director of Operations since June 1998. From 1984 until 1998, Dr. Riccadonna was an electrical engineer at LAPP. Dr. Riccadonna received an engineering degree and a Ph.D.in micro-electronics from the University of Annecy, France.

Tom BREUNIG, *44 years old, Communication Director*: Holds of an MA from Columbia University, Tom served as marketing director for Ballinger Publishing (the former business book arm of Harper Collins). Then, he oversaw semiconductor and telecommunication accounts for five years at Miller/Shandwick Technologies in Boston. Après cette 1ère expérience, dans le domaine des relations presse,he joined KVO Public Relations in Portland for five years as « semiconductor accounts » manager. He joined MEMSCAP in February 2000 as international corporate communication director for the group.

Aurore FOULON, 30 *years old, Corporate Communication Director* : Holds a LLB in French and English law as well as a Master's degree in European law and an MBA from the ESSEC School of management. Aurore joined MEMSCAP in august 2001, as Corporate Communication Director overseeing company image, press relations and trade shows. Prior to joining MEMSCAP, she served as a Director for a press agency, producing special economic reports for medias such as the New-York Times.

Per Arne LISLIEN *39 years old, « Sensor solutions » business unit director »* After a first logistic manager experience for Europe at Kongsberg Automotive ASA, he joined the Norwegian Scan-Sense AS Group (captors manufacturer for both oil and gas Norwegian industries) where he served as vice-president and Director of Operations for Norway as well as CEO of the British subsidiary. Prior to joining CAPTO in March 2001, he served as Vice-President for Operations at SensoNor, MEMS Norwegian manufacturer for car industry.
Since MEMSCAP acquired CAPTO in December 2001, Per Arne still manages this subsidiary and is also the « high added value captors » business initiative director for MEMSCAP.

Mourad EL GAMAL, *37 years old, « Wireless communications » business initiative Director* :Holds a Ph. D in electric engineering from Mac Gill University in Canada, he began his career in the IBM technical tems prior to joining ALCATEL as an engineer in the « Tests » Department. Prior to joining MEMSCAP in November 2001, Dr EL GAMAL served as microelectronic professor at Mc Gill University in Montreal where he set up a

research group working on VLSI Mixed signal addressed to both optical and wireless applications. He was also consultant for industry and participated to several technical committees for international conferences.
He won many teaching awards and published about thirty publications. He won 1st award at MIDWEST for a publication relating to his research connected to the RF (5-10GHz) CMOS oscillators. He holds a pending patent.

Nan ZHANG, *34 years old, « Optical communications » business unit director:* Nan oversees the product developments of the MEMSCAP « Optical communications »business unit. Prior to joining the Group, she served for five years at ADC as manager of the development projects in the MEMS areas and particularly, in the areas of optical switches, variable optical attenuators and turnable filters. She brought significant progress in the MEMS area, optical fiber, non linear optic and laser technology. Nan holds ten patents connected to the MEMS technologies and published about forty technical publications all over the world.

Mary Ann MAHER, ***41 years old, "Sotware Design Tools" business unit Director.*** She holds a Ph.D and has served as our Chief Technology Officer since June 1999. From March 1993 until May 1999 she served as Director of Advanced Products at Tanner Research, where she brought to market Tanner's MEMS design software and developed a design methodology for MEMS. From August 1989 until February 1993, Dr. Maher was a researcher at CSEM in Neuchatel, Switzerland, where she investigated analog memories and designed low-power analog integrated circuits with on-chip sensors for artificial vision applications. Dr. Maher has published extensively in the areas of transistor modeling, circuit simulation, MEMS and MCM design tools and methodologies. She has a Ph.D. in computer science from the California Institute of Technology, where she specialized in device physics and analog design.

6.1.3 Technical Advisory Board

The technical advisory board whose main purposes are the strategic orientations of MEMSCAP is composed of the following members:

-Gary FEDDER, a Professor at Carnegie Mellon University ;
-Hiroyuki FUJITA, a Professor at Tokyo University and aDirector at Fujita Lab;
-Philippe RENAUD, a professor at the « Ecole Polytechnique de Lausanne »;
-Tank BOUROUINA, an Assistant at Tokyo University and a Project Manager at LIMS;
-Constant AXELRAD, a Program Manager and Director of Marketing Studies at CEA/LETI;
-Pierre GUILLON, A Research Director at CNRS and a Director at IRCOM;
-Serge SPIRKOVITCH, Director of the Fab Process at MEMSCAP;
-Bernard COURTOIS, A Research Director at CNRS and a Director at TIMA;
-Nico de ROOIJ, Director of the Microtechnology Institute of Neuchâtel University;
-Markus PESSA, Director of the Optoelectronic Research Center.

M. de ROOIJ and PESSA have been elected as members of the technical advisory board by the board of directors held on October 15, 2001.

6.2 MANAGEMENT INTERESTS IN THE SHARE CAPITAL OF THE COMPANY, AND IN A COMPANY WHICH CONTROLS IT, AND IN THE SHARE CAPITALOF ITS SUBSIDIARIES.

6.2.1 Executive compensation

No directors' fee was allocated to the members of the Board of Directors for fiscal year 2001.
The total of the annual wages and fringe benefits paid by the Company and its subsidiaries according to terms of article L233-16 of the Commerce Code to the executive officers was € 311.425 for fiscal year 2001(including € 32.193 paid in January 2001 but connected to fiscal year 2000). This amount, including fringe benefits for € 32.193, has been only paid to Mr Jean-Michel KARAM by MEMSCAP SA.

6.2.2 Stock options or share options granted to the executive officers and exercised options

No stock options or shares options and founders' warrants were granted to any executive officers of the Company.

6.2.3 Regulated agreements concluded between the Company an its executive officers and some of its shareholders

No operation (except current operations concluded in normal terms) was concluded between the Company and its executive officers or between the Company and shareholders holding more than 5% of the voting rights, or between the Company and the parent company of a company acting as a shareholder, during fiscal year 2001.

6.2.4 Loans and guarantees granted or constituted on behalf of the members of managing bodies.

The Company has granted or constituted on behalf of the members of its managing bodies no loan or guarantee.

6.3 PROFIT-SHARING SCHEME

6.3.1 Participation and profit-sharing schemes

The Company started a thought concerning the potential implementation of a profit-sharing scheme which could bring to negotiations with the works committee by the end of year 2002.

Stock options granted to the ten first non executive officers employees and exercised options

STOCK OPTIONS OR SHARE OPTIONS GRANTED TO THE TEN NON EXECUTIVE OFFICERS BENEFICIARY EMPLOYEES AND, EXERCISED OPTIONS BY THEM	Total number of granted options /and of subscribed or acquired shares	Weighted average price	Scheme n°X
Granted options, during the fiscal year, by the Company and by all company included in the options granting scheme, to the ten employees of the Company and of all the companies included in this scheme, whose number of granted options is the highest (Global information)	620.000	1.23 €	n°4
Options held on the Company and linked companies, previously exercised during the fiscal year, by the ten employees of the Company and of those linked companies, whose such exercised options number is the highest (Global information)	140.000	0.264 €	n°1

No stock option or founders' warrants « BSPCE » has been granted to any executive officer during 2001.

CHAPTER 7
FUTURE PERSPECTIVES

Fiscal year 2002 will be for MEMSCAP a year of transition with the beginning of commercial operations during the summer, at the new fabrication facility in Bernin.

This is the reason why the first half-year period activity will be impacted by the preparation stage of the second semester activity consisting for MEMSCAP teams to manage the transition from prototyping to volume production.

Contracts under completion which could be expected by the end of the second quarter as well as the expected increase of activity thanks to the beginning of commercial operations of the fabrication facility reinforce MEMSCAP in its aim of reaching the break even during fiscal year 2002 mainly based on the second half-year activity.

Financial communication schedule for FY 2002:

- March 14, 2002: Annual results for FY 2001
- April 25, 2002: Q1 2002 revenue
- July 25: Q2 2002 revenue and half year period results
- October 24 : Q3 2002 revenue
- January 22, 2003 : FY 2002 revenue
- March , 2003 : Annual results for FY 2002.